IN THE UNITED STATES DISTRICT COURT

IN AND FOR THE DISTRICT OF DELAWARE

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PHARMASTEM THERAPEUTICS, INC., : Civil Action
:
Plaintiff, :
:
v. :
:
VIACELL, INC., CRYO-CELL INTERNATIONAL, INC., CORCELL, INC., STEMCYTE, INC., CBR SYSTEMS, INC., f/k/a CORD BLOOD REGISTRY, INC., BIRTHCELLS TECHNOLOGY, INC., NUSTEM TECHNOLOGIES, INC., and BIO-CELL, INC., :
:
Defendants. : No. 02-148-GMS

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VIACELL, INC., CRYO-CELL INTERNATIONAL, INC. and CORCELL, INC., : Civil Action
:
Plaintiffs, :
:
v. :
:
PHARMASTEM THERAPEUTICS, INC., :
:
Defendants. : No. 04-1335-GMS

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Wilmington, Delaware
Wednesday, November 3, 2004
10:00 a.m.

- - -

BEFORE: HONORABLE GREGORY M. SLEET, U.S.D.C.J.

APPEARANCES:

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-and-
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THE COURT: Good morning, counsel. Please be seated.

(Counsel respond "Good morning.")

THE COURT: We have all spent a considerable amount of time together in the past. Why don't we for the record begin with introductions. Mr. Rovner, with Mr. Andre?

MR. ROVNER: Philip Rovner from Potter Anderson for PharmaStem. With me is Paul Andre from Perkins Coie.

THE COURT: Welcome back.

Mr. Moyer.

MR. MOYER: Good morning, Your Honor. Jeff Moyer on behalf of ViaCell. This morning we have Paul Ware, John Englander, Chris Holding, as well as Elaine Blais from the Goodwin Procter firm in Boston, for ViaCell.

MR. KIRK: Good morning, Your Honor. Richard Kirk from Morris James Hitchens & Williams for CBR Systems. With me are Bill Abrams and Tom Chaffin from Pillsbury Winthrop.

MR. RODGERS: James Rodgers from Dilworth Paxson for Cryo-Cell and CorCell. With me is Evelyn McConathy.

THE COURT: The Court would note the absence of James Rehnquist and ask that, Mr. Ware and Mr. Englander, you convey the Court's best wishes to him.

We have, I think, allotted several hours. We

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were going to go until 12:30 this morning, or this afternoon, take an hour for lunch, then come back and go for another hour or thereabouts. I have a 3:00 matter that I need to attend. So if we are going to go beyond the allotted time, I am going to need to take a break at 3. I hope we don't have to go beyond the allotted time. Other than the 3:00 -- it is a pre-Markman discussion, which shouldn't take a terribly long period of time -- we would have additional time in the afternoon if necessary.

As I understand, I want to make sure we have agreement from everyone, we are here to consider three separate motions. They are plaintiff's motion for the issuance of a preliminary injunction in the underlying, I will call it the underlying case, the 1335 matter, and defendants' collective motions for contempt and for the issuance -- and in the underlying case and in the new matter, the 148 case -- I am sorry, the 1335 case -- I think I messed up the numbers, on the issuance of a preliminary injunction.

If counsel have a different view, I am perfectly prepared to hear it. But it strikes me that it may make sense from a presentation point of view to take up the defendants' two motions first, and then it seems like there probably is going to be some necessary overlap. It does seem like there may be a need to take these matters under consideration separately. Is there a view out there to the

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contrary?

MR. ANDRE: Mr. Ware and I spoke before Your Honor came out. Both obviously wanted to go first. Mr. Ware brought out the issue that he had a witness that he would like to get out of the courtroom. We would still obviously like to go first. If it makes more sense to Your Honor, we can go after they go.

THE COURT: That is sort of the way I have been thinking about it. That is not to reflect the Court's view one way or the other regarding the merits. That's just the process of consideration. I think that's the way we will proceed.

I do have a question for both sides. That is how, if at all, once they are fully briefed, the defendants' collective motions for partial reconsideration should play into the Court's deliberations on all of the motions, quite frankly?

MR. ENGLANDER: Your Honor, I believe they are fully briefed at this point.

MR. RODGERS: That's correct.

THE COURT: There has been opening, answering and reply?

MR. ROVNER: Yes, there has.

MR. ENGLANDER: Your Honor is quite right. I think those issues do play into the questions of their motion

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for preliminary injunction, in the sense that they are up here arguing for a likelihood of success. I think Your Honor will recognize, that is not the thrust of our opposition. But surely, if Your Honor were to grant that motion for reconsideration, that would be the end of the likelihood of success on the merits, because there would then be a JMOL on the '681, and in that event they would have no argument for likelihood of success on the merits on their motion for preliminary injunction.

So there is relevance to it, and I intended to touch on it.

THE COURT: Mr. Andre.

MR. ANDRE: I don't disagree with Mr. Englander. I would like to add that there is a motion that is not fully briefed that will also have impact on the plaintiff in the ViaCell v. PharmaStem matter for their preliminary injunction. That is a motion to dismiss that has been filed in this Court, asking to dismiss their complaint altogether based on various theories of compulsory counterclaims elsewhere and the fact that there are cases pending that have the exact same counterclaims in a couple other courts. So there is a motion to dismiss. I think that needs to be fully briefed and considered for their PI as well.

THE COURT: I don't disagree with that. Except I have a view that that motion may be rendered moot at some

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point, only because, I will reference back to previous teleconferences we have had and comments that the Court has made to both sides with regard to the MDL process and the views of other judges.

MR. ANDRE: I agree, Your Honor. Obviously, with the MDL, if there is a consolidation, and it may be in this Court, who knows what the MDL panel would due, that would be for discovery matters and not trial, we believe if there is a trial that goes forward in these matters that the claims that are brought in this Court as the original complaint should be counterclaims and should be tried to the extent they are ripe, et cetera, under Article III, they should be tried in the courts where the patent issues are being decided and tried as well.

So it's just something that, for us to have to defend the counterclaims, or the claims in this case, and identical counterclaims elsewhere, or where they should have been brought, that kind of gives us a chance to have inconsistent verdicts. That, plus the fact when you see the briefing fully briefed out, as to the merits of the compulsory counterclaims, et cetera, I think that will have the impact on the preliminary injunction that they seek.

I understand what Your Honor is saying with the MDL.

THE COURT: what is your view, Mr. Englander, of

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the MDL and where that could potentially land us?

MR. ENGLANDER: We believe the MDL should take place, and in that event all of these issues are going to be before the Court.

THE COURT: For discovery only?

MR. ENGLANDER: But also for the decision of any pretrial motions, Your Honor, which is what this is. We are also prepared, in the context of our motion, to address the issue of whether these are compulsory counterclaims, because there is Supreme Court precedent that says there are not, as well as cases since then.

I was perhaps a little tentative about the motion for reconsideration. It surely is relevant to their motion for preliminary injunction. And if Your Honor would like to hear argument on that, we are prepared to give it, because it is -- to the extent they are arguing likelihood of success, one of our points is, they didn't prove it at trial and they aren't proving it now. That is the point we have made in our motion for reconsideration. And if Your Honor is willing to hear it -- and I was tentative in part because Your Honor set only the three matters for hearing -- it seems this issue is squarely raised by their motion, and we would be happy to present argument on their position today.

THE COURT: Are you prepared to argue?

MR. ANDRE: I am not prepared for that, Your

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Honor. We don't have the papers in front of us. And it was something that just wasn't on our docket for today.

THE COURT: Even though I have not read the briefs because, in point of fact, I didn't know it had been fully briefed, I have retained enough familiarity based upon having presided and now having digested the papers that sit in front of me that I would be able to entertain argument.

But I don't want to put plaintiff at a disadvantage. We may get on the phone and talk about it. I am not going to make you come back to Delaware just for that argument, unless after reading the briefs and considering what we are going to do today I believe that it is of such moment that it might require further explication and discussion by way of oral argument in person. I will just leave that there.

MR. ENGLANDER: Thank you, Your Honor.

THE COURT: Lastly, before we start, plaintiff has filed with the Court Docket Item 30, PharmaStem Therapeutics, Inc.'s request for judicial notice of relevant exhibits thereof.

Are these for the purposes of today?

MR. ANDRE: Your Honor --

THE COURT: It is essentially, I think, a request to have the Court judicially notice about an inch and a half --

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MR. ANDRE: I believe that is for the motion to dismiss.

MR. ROVNER: That is what it was, Your Honor. That has not been fully briefed.

MR. ANDRE: They have not filed their oppositions to that yet. It is based on the cases pending elsewhere and the counterclaims elsewhere.

MR. ROVNER: Your Honor, there is one other issue that is relevant to the, I don't want to say plaintiff or defendants, because that's confusing in and of itself, ViaCell, et al. With respect to their preliminary injunction motion, we have responded to the notice of joinder that was filed on October 28th by Mr. Rodgers' clients, CorCell and Cryo-Cell. We believe that their joinder is improper for many reasons. But that was briefed, we submitted our brief last week on that.

THE COURT: I am aware of that. We can proceed today and the Court can decide that at its leisure.

MR. ROVNER: I thought that that is what you would say. However, the one thing is, I don't want to be estopped later -- we obviously have nothing to say to CorCell or Cryo-Cell to rebut any accusations or any allegations of irreparable harm. They haven't presented any. So we don't feel there is any basis for them to join in a motion which is, you know, party-specific. So that's why we are not going

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either directly, contributorily or induce infringements of the patents in each and every instance. Our legal theory, as I am somewhat reluctant to continue spilling forward because I think it does prejudice -- I am putting forward our legal theory to these defendants early in the case.

THE COURT: That is the theory in your previous argument today. I think you did indicate that that was the theory.

MR. ANDRE: Our theory of the case was inducing infringement. It is inducing infringement of a patent that was not subject to this Court's previous preliminary injunction that was filed on July 2nd.

THE COURT: Let me dial you back a bit just to the early -- get you to respond to the observation by Mr. Englander that the patents really, your patents, I mean other than the '681 and '553, patents that are in suit in other jurisdictions, really are before this Court within the context of the antitrust complaint that's been filed by the defendant. As evidence of that, Mr. Englander asserts and advances this bit of evidence, the amnesty agreement itself, I believe, which is at your Tab 5, which indeed does name the '645, '427 and '275 patents. Why isn't that evidence that underscores the correctness of his position -- I am not saying whether he is right or not -- that tends to support the view that in point of fact the Court, as I sit here

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today, as we sit here today, as the Court sits here today, has jurisdiction over those matters?

MR. ANDRE: I think if this case were to stay in this Court -- obviously, we filed a motion to dismiss on those very grounds, because those patents are being asserted against the defendants and against obstetricians elsewhere. And in three of the instances, they have brought counterclaims, CBR, who has not joined in on this antitrust case, filed counterclaims against PharmaStem for these various activities. CorCell did the same thing and Cryo-Cell did the same thing as well.

ViaCell -- perhaps I am a bit too nice -- asked for a 60-day extension. I granted it to them. And they filed this action here and kind of came through the back door on us. And Mr. Ware was very -- I give him credit for getting a 60-day extension and having the Court weigh in on this issue at this time.

That is the reason we are filing a motion to dismiss and the reason we filed motions with the Court saying, these are all within the same subject matter as the case currently pending. We don't think they are ripe. If you are going to file counterclaims, they should be with the Court that is going to determine whether or not the infringement, the infringement of these patents is going to go forward or not.

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The possibility that would happen here is that this Court could, in theory, say, well, I don't think obstetricians are covered by the '427 patent, in the ViaCell case. But we would be in a Boston court and could actually prove they are covered. So we would have inconsistent verdicts.

THE COURT: If there is a concern about inconsistent results and inconsistent rulings, wouldn't it be prudent, perhaps, to await the findings of the MDL, the result of the MDL process in order to prevent just that concern, which you express in your papers, the two concerns, I think, inconsistency, and the Court certainly appreciates your concern about the use of the Court's resources, that is judicial economy, wouldn't it be prudent for all of us to await that process, the completion of that process?

MR. ANDRE: I don't think I have much of an issue of waiting to see how the MDL comes out. It is our position, what is going on here is, by ViaCell filing this complaint and CorCell and Cryo-Cell joining in in this particular case, and bringing the patents that are mentioned in the amnesty agreement before this Court in a way that is not really -- the Court is not here to determine whether or not these obstetricians infringe --

THE COURT: I guess my point is, there has been a complaint somewhere, I think, made by PharmaStem that the

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defendants are sort of stringing you out, that you only have three and a half years left on the patents. And through the vehicle of litigation, they are just prolonging things and keeping you tied up, when in point of fact, it is PharmaStem that has gone into other jurisdictions, and I am sure you had very good reasons for doing that, but have filed additional litigation, which you must have imagined when you filed it was only going to further prolong your ability to engage in the economic activity in which you seek to engage.

MR. ANDRE: Also, let me take a step back, about these new lawsuits. While the posttrial motions were pending on the '681 and '553, we had obviously sued on those a couple years ago, we go through the full trial, we get the jury verdict. Obviously, the Court has set aside the verdicts to some degree. We also began at that time to contemplate going after the healthcare providers, because the healthcare providers, we believe there is a cognizable issue of infringement here.

Now, we can't sue everyone in Delaware because we just don't have jurisdiction. These are a lot of individual physicians in LA. We can't get jurisdiction in Delaware. What we did, we sued the healthcare providers that we believed are infringing these patents, these additional patents, not the ones before this Court.

THE COURT: Were any of the physicians on the

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certain facts, either for you or against you, relative to these motions that are before me. Could I not? And should I not? If not, why shouldn't I?

MR. ANDRE: I believe you should not, Your Honor, because I believe that would be an advisory opinion as to the infringement of these patents. At the end of the day -- you know, at this time, the infringement cases are not before this Court with those patents and with these defendants. This Court is not familiar with -- to some degree you are familiar, but you are not familiar with the claims we are asserting. They are different claims. There are different elements --

THE COURT: My goodness, Mr. Andre. We have the identical specification and a similar specification in both the patents already before the Court, already part of this record. The claims, we can all read the claims. We all know what the subject matter is. We don't have to beat around the bush with that or play games. Mr. Ware -- I don't mean this pejoratively - Mr. Ware used the term sophistry, we don't have to engage in that type of legal sophistry, I will call it advocacy, to be nice, in an effort to try to do what is right. That is, try to achieve a just result in this case. No? And in all the cases?

MR. ANDRE: Well, that is obviously our interest, Your Honor.

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THE COURT: It's certainly the Court's interest.

MR. ANDRE: Absolutely. I think it's --

THE COURT: Although your interest is in winning. I don't mean to denigrate that at all. As is the defendants'. Okay? I don't mean to denigrate those interests at all. They are perfectly honorable. But the Court does have a different interest. That is where I am trying to lead you. But go ahead.

MR. ANDRE: My point is, Your Honor, that the property rights we have with the patents and how we choose to assert them, and our reasons for doing so, is something that is our prerogative and our rights.

THE COURT: I do agree with that.

MR. ANDRE: Whereas I understand the Court's concerns about judicial resources and whatnot, there are reasons why we would want to pursue the cases as they are currently pending, because we are suing individuals. There is everything from witnesses that we may be interested in calling at trial with a trial subpoena that would not be -- if I am in LA, I am trying to get a witness in LA in a trial subpoena, I doubt I could get him to come to Delaware.

There are reasons and strategic reasons which I do not prefer to lay out at this point, just because I don't want to tee off our hand too much to my opponents here, that we would prefer to keep the cases pending where they are.

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THE COURT: For trial.

MR. ANDRE: For trial.

THE COURT: Perhaps you can answer this, and others can weigh in. Is there anything that is inherent in the MDL process that would preclude a plaintiff in your position from applying to the panel and saying, judges, we would like you to consider consolidating these lawsuits that we have filed before this district court, wherever it is?

MR. ANDRE: Normally, that would be the case, a plaintiff would go, because of the added expense. I am not home at all now, traveling to Florida and Pennsylvania. That is the reason I wasn't in Boston. Normally, it is the case that plaintiff would go, because you look at the hardship on the individuals.

Now, in this particular case of these defendants, there is no hardship on them. They are in their back yard. We sued them in their home town. That is where their lawyers are located. It is something that there is no hardship on them. So if we decide to suffer that hardship of having to travel and whatnot, then that would be a decision we make.

We have not made a decision on the MDL at this point. It was just filed recently. We are looking into it. It is something we will make a decision and file our brief with the MDL, I think we have 20 days from last week, we will have it sometime mid-month, I believe.

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And my understanding of the MDL, it is consolidated for all pretrial discovery and motion practice.

THE COURT: And you will be able to have your trials where you could issue your trial subpoenas back in the jurisdiction.

MR. ANDRE: Exactly. That is the reason we are looking into it. It is something we are not intimately familiar with because it happens so seldom in patent cases, although it happens more and more.

THE COURT: Isn't the K-Dur case one?

MR. ANDRE: I have had one patent case where that was the instance, where we did that. We are looking into it, is my position.

Nonetheless, going back to the motion for contempt, the documents that they complain of are all true in fact. There is nothing false or misleading. There is certainly nothing subjective that is false or misleading.

Exhibit 5 they point to, that is an absolutely true statement. It is PharmaStem's position, as asserted in these lawsuits, that obstetricians are liable for patent infringement if they collect cord blood or market services for unlicensed cord blood banks. That is an absolutely true statement. That is the position that PharmaStem has taken. There is nothing misleading about that. Nor are the other mailings or press releases that went out, nothing false or

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damages while we are in reexam for almost seven years.
The fact of the matter is equitable intervening rights is not a remedy available to them. No court has ever held such.
Finally, regarding the hematopoietic reconstitution, the patent says you have to have a sufficient number of stem cells to effect hematopoietic reconstitution. It doesn't mean you have to actually effect it. You have to have a sufficient number of cells. The fact of the matter is, unfortunately, small children who get transplanted with ten times the cells they need do not achieve hematopoietic reconstitution at the same time. There are a host of factors -- Dr. Wagner testified to this, as well as other experts -- that cause a patient to pass away beforehand. It is unfortunate. But it's not because there is a lack of cells or a lack of sufficient number of cells. It is because they are terminally ill people that unfortunately, sometimes the transplants just don't work. So it has nothing to do with the sufficiency of it.
Then, we talk about the delay, you know, Your Honor brought this up a little earlier, market share. For this particular instance they say we have no market share, for the antitrust, they say we do have market share. So it's hard to define what exactly the market is here. We did not say -- or if we did say it, I will correct it -- we have

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market share. We say our licensees had market share and they are losing market share. That is an issue of harm.
More importantly is the statutory presumption that we have a right to exclude people. It's time now. It's time for these people to stop infringing and pony up -- if they want to take a license, they had an opportunity to do so. That day is gone now. We closed our licensing program down. We sent letters saying we are going to close down October 15. Come take a license now, you are going to have the same license as the other 16 people did. Otherwise, our board decided that we are not going to grant anymore licenses.
We want an injunction. We sought an injunction as soon as the facts changed in this case, in which invalidity and enforceability were off the table, this Court has only the issue of if these people infringe. We provided enough evidence where a jury found all their units infringe. We definitely provided enough evidence here today and in this motion that at least some of them infringe.
Thank you, Your Honor.
THE COURT: Okay. The Court will take these matters as well as the related motions under advisement. The Court will issue a written opinion as soon as it is able. And the Court thanks all counsel for your time and your efforts.

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MR. ENGLANDER: Your Honor, two things we need that were referenced. In addition, the client wanted us to point out to the Court, with respect to the last motion, the mere pendency of that motion is being used in the marketplace against our client right now. So we wanted to point that out. The client wants to emphasize that there is urgency just getting the motion decided.
THE COURT: There are a lot of urgent matters before the Court.
Okay. Thank you.
(Hearing concluded at 5:30 p.m.)
- - -
Reporter: Kevin Maurer